



Department of the Treasury
Internal Revenue Service
Western Area (TE/GE)

Date: 1-20-88

Employer Identification Number:
[REDACTED]

Person to Contact/ Employee No.:
[REDACTED]

Telephone and Fax Number:
[REDACTED]

Reply:
[REDACTED]

Dear Applicant:

We have considered your application for recognition of exemption from Federal income tax under section 501(c)(6) of the Internal Revenue Code and are denying your request.

FACTS:

[REDACTED] (hereinafter [REDACTED]) was incorporated [REDACTED] in the State of [REDACTED]. The Bylaws provide that the principal purposes shall be to provide an open forum to promote the free interchange of information and ideas which are of mutual interest and value to users of [REDACTED] computers, and to provide a formal communications channel between members of the Corporation and [REDACTED] (now known as [REDACTED]).

There are currently [REDACTED] computers in use world wide, and each site is an eligible member. Ceasing to be a [REDACTED] installation is grounds for loss of membership.

[REDACTED] provides user group conventions for the users of the [REDACTED] super-computers. Typically, there are [REDACTED] such conventions held during any given year. The users meet to exchange ideas and information about the use of [REDACTED] computers and provide users information from the hardware manufacturers. Speakers appear at the conventions.

The speakers at the conventions typically include both members as well as recognized professionals in the computer industry. Also, manufacturers of computer equipment are invited to attend and disseminate current information relative to their equipment.

The sources of revenue are from the convention attendance and membership dues.

LAW:

Section 501(c)(6) of the Code provides for the exemption from Federal income tax of business leagues not organized for profit, no part of the net earnings of which inures to the benefit of any private shareholder or individual.

In Revenue Ruling 74-147, 1974-1 CB 136, an organization was formed to stimulate the development of, with free interchange of information pertaining to, systems and programming of electronic data processing equipment produced by various manufacturers, without regard to identity of the manufacturer of any such computer. In that instance, the organization was held to be exempt as the common business interest was the problem of the use of digital computers.

Revenue Ruling 83-164, 1983-2 CB 95, held that a membership organization of the users of only computers manufactured by one company was not exempt. In this case the organization benefits the competitive advantage of the one manufacturer and its customers to the disadvantage of other manufacturers and their customers. Rev. Rul. 74-147 was distinguished.

The activities of a business league must be directed to the improvement of business conditions of one or more lines of business in order to qualify for exemption. However, the activities of the organization cannot be primarily directed to the performance of particular services for individual persons.

The performance of particular services by an organization for its members or others is not an exempt activity under IRC 501(c)(6). While such activities do not preclude exemption in and of themselves, an organization whose primary activity is performing particular services is not exempt under IRC 501(c)(6).

An organization whose members represent diversified businesses that own, rent, or lease computers produced by a single computer manufacturer was not qualified for exemption from federal income tax as a business league under section 501(c)(6) of the Code. Rev. Rul. 83-164.

CONCLUSION:

██████████ does not qualify for exemption under 501(c)(6) of the Code since the primary objective of the organization is to provide a forum for the exchange of information for a particular computer (██████████ as it is now called). The information exchanged during the conventions will not benefit the computer industry as a whole due to the high performance and technical nature of the computer.

The conventions held by ██████████ are limited to persons that own one of the supercomputers and the manufacturer of the ██████████ computer. This represents a primary activity or a particular service for a particular group of persons. This does not meet the requirements of a business league under Section 501(c)(6) of the Code.

[REDACTED]

You have the right to protest this ruling if you believe that it is incorrect. To protest, you should submit a statement of your views, with a full explanation of your reasoning. This statement must be submitted in duplicate to the district director within 30 days from the date of this letter and must be signed by one of your principal officers. You also have a right to a Regional Conference after your statement is submitted. If you want a conference, you must request it when you file your protest statement. If you are to be represented by someone who is not one of our principal officers, he must file a proper power of attorney and otherwise qualify under the Conference and Practice Requirements.

If you agree to the adverse action shown above, please sign and return one copy of the enclosed Form 6018, Consent to Proposed Adverse Action. You should retain a copy for your records.

If you have any questions, please contact the person whose name and telephone number are shown in the heading of this letter.

Thank you for your cooperation.

Sincerely,

[REDACTED]

[REDACTED]

Director, Exempt Organizations

Enclosure:
Publication 892
Form 6018
Notice 1214